White Paper:

Comparison of Retail in India TODAY Vs. US during the last 2.5 decades.

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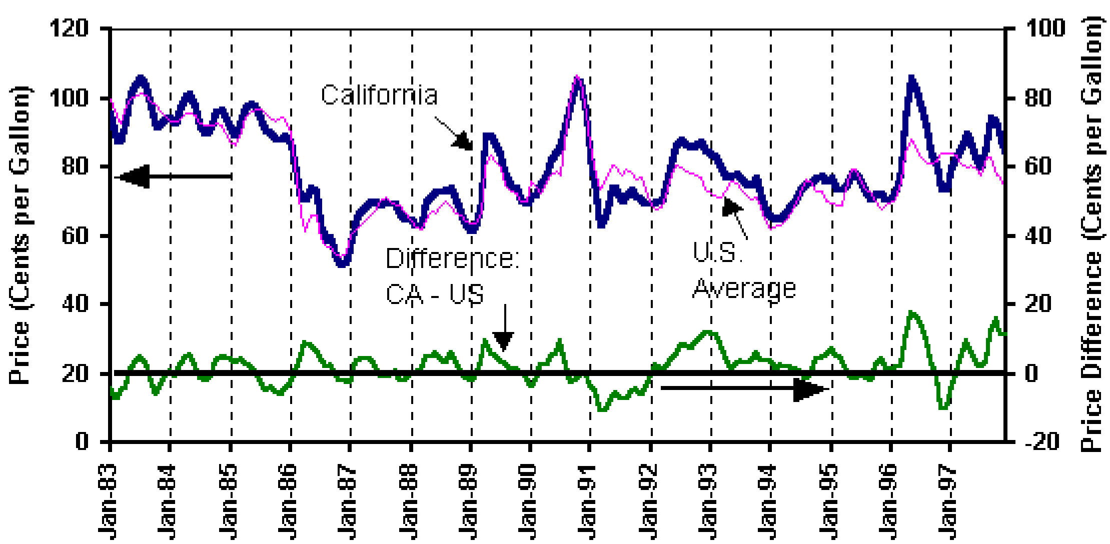
Abstract:

History seems to be repeating itself in a different geography. There were casualties when big business (box/discount retailers) moved into neighborhoods in the 80's in the US. Can we avoid such casualties as big business moves into neighborhoods in India? Can big and small retailers co-exist? What is the impact on consumers over time? We have almost three decades of history and observation to draw on. Let's see if we can change this evolution process with conscious design to maintain a symbiotic ecosystem for Retail in India.

Observations of a newcomer to the US:

When I first came to the Los Angeles from Madras (now Chennai) in March of 1983: Gas price ranged from 86 cents to a little over a dollar for a gallon (3.8 liters) and then for most of the decade and 1990s, stayed within this range.

Figure B.1 California and U.S. Retail Regular Gasoline Prices



I could walk over to the corner grocery shop to buy basics like onions, green chilies, coriander leaves, milk, and eggs. By the mid to late 90's these small shops that catered to the local community seemed to have shut down. I had to drive about 2-3 miles to the local Albertsons or Lucky's (to buy these basics).

So also, there were a lot of small fashion retailers dotting the neighborhood. They too had disappeared. I now drove to a mall or a discount fashion retailer to buy clothes for my daughter who seemed to grow out of everything faster than I could buy them.

From a consumer point of view, I didn't mind much. I did my grocery shopping once a week and made a list and got everything under one roof; whereas, in the past, I simply crossed the street to get what I needed. Things seemed to be a little cheaper as well. I didn't notice the insidious snaking of prices upward. It started with one or two things being high priced like tomatoes jumped from 89 cents a pound to $3.99 per pound. I just attributed this to out of season or a bad drought somewhere. By the late 1990's early 2000's everything in a grocery store was expensive. I could not buy green chilies for less than a $1.99 per pound no matter what the time of year; the same with most vegetables. I started looking for alternatives. From a clothing and domestics perspective, I found myself buying things I didn't need just because it was cheap (translate to mass produced with cheap labor) and it stayed in my closet. I never wore it. Why would I buy stuff I didn't wear? I was really looking for that one really cool outfit and all I ever found were mass-produced generic items in the same five colors. Basically, I gave up looking thinking I should compromise and just wear what's available and the price was right. I was a dissatisfied consumer, trying to accept substandard everything. One who had given up ideas of quality and trying to get used to generics since that was all that was available.

Maybe now I don't have to accept substandard everything. This is 2007. The small to mid-size groceries are making a come-back. So are the small to mid-size fashion and hardline (hardware, furniture, etc) retailers. The question is what happened to them. Why did they die in the 80's and 90's and early 2000's. What brings them back? Will they survive this time? They are now confident enough to open a store and coexist with discount and other organized retailers. Why? If we understand what happened to them in the 80's, 90's and early 2000's and understand why they are now able to make a comeback, this will perhaps help us prevent history from repeating again in another geography, namely India.

Facts and Background of impact of box retailers on the economy in the US

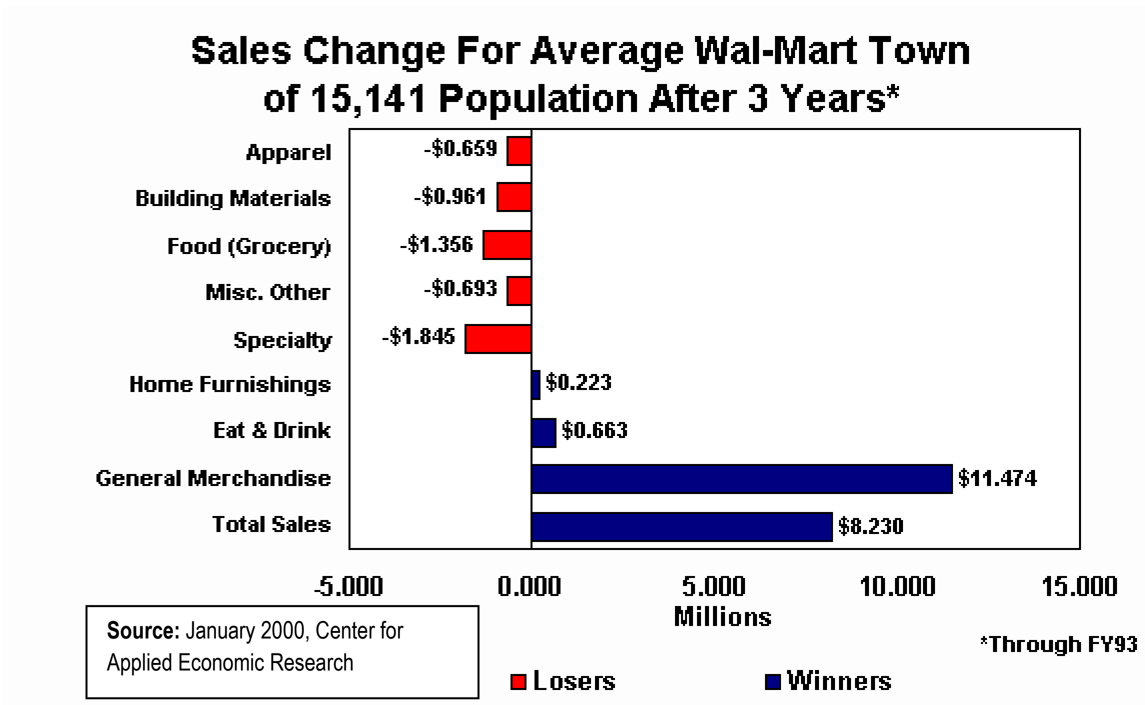
Retailers trading in product categories such as foodstuffs and groceries, appliances, building materials, men and women's apparel, photo equipment and supplies, pharmaceuticals, reading materials, electronic and computer hardware and software, home hardware, office equipment and supplies are directly affected by the box retail stores aka discount stores, mega retailers.

Below is an example of one finding:

Los Angeles, California
Research for Big Box Retail/Superstore Ordinance - **October 2003**
Prepared for the Los Angeles City Council by Rodino Associates

Key findings: Study concludes that big box stores would harm low-income neighborhoods in Los Angeles by reducing competition, creating blight, lowering wages, and forcing new costs onto taxpayers. By pricing groceries as "loss leaders" and using higher margin non-grocery items to make up the difference, supercenters often force existing supermarkets out of business. Because grocery stores anchor many neighborhood business districts and shopping centers, their closure would harm other retailers and lead to vacancies in areas that are only now beginning to recover from years of economic decline. The report also finds that supercenters would negatively impact job opportunities by replacing union-wage supermarket jobs with a smaller number of lower-paying jobs. Fewer workers would have health care benefits, further burdening public hospitals and health care programs. (excerpted from ILSR)

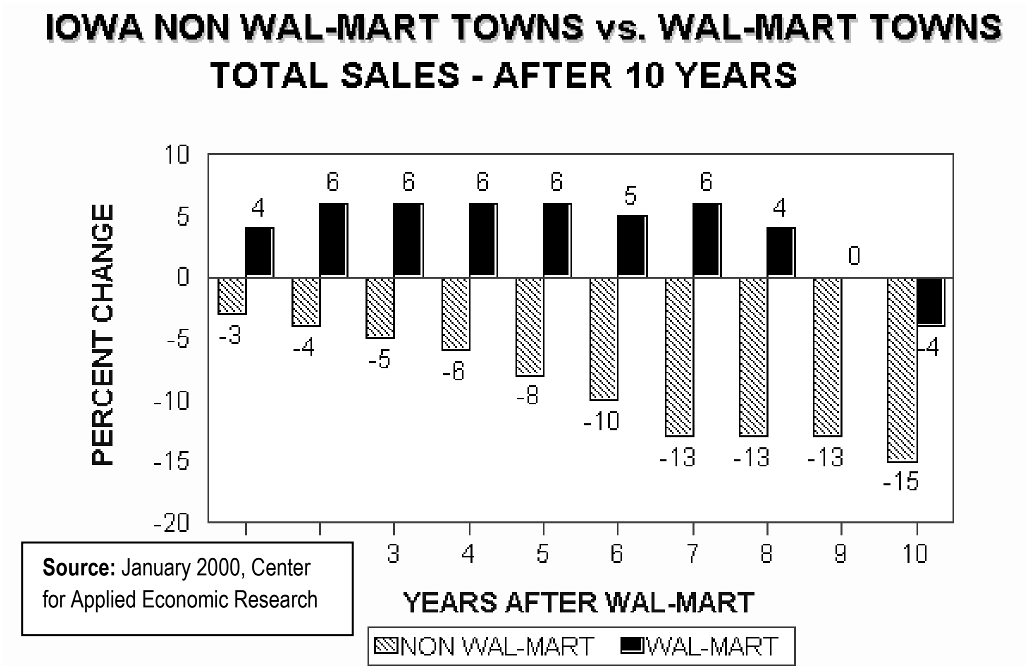
The Impact of Big Box Retail Chains on Small Businesses in the US



While the study by Ken Stone, *Competing with the Discount Mass Merchandisers* (1995), found that competing directly in the same product lines as these mega discount retailers resulted in loss/closure of business, those retailers who identified complementary merchandize increased sales if they were in the vicinity of these mega retailers.

Ken Stone further suggests that rural towns adjacent to a town with a WalMart with a population of less than 5000 is likely to be greatly impacted in terms of loss of business as consumers tend to drive the extra distance to shop at a WalMart.

Example Impact of Mega Retail Discount Store on Rural/Adjacent Towns



Other Socio/Economic Impacts of Mega Discount Retailers

The impact of these mega retailers is not limited to other smaller retailers; it creates a socio/economic chain reaction over time. Various studies done on WalMart and other retail chains indicate the following:

1. **Local Community Benefits**: Chain Retailers do not give back as much to the local community - locally owned stores generate much greater benefits for the local economy than these national/international chains. The Andersonville study found that spending $100 at a local business creates $68 in additional local economic activity, while spending $100 at a chain produces only $43 worth of local impact. **Source:** The Andersonville Study of Retail Economics - By Civic Economics, October 2004
2. **Wage Impact**: Discounts Stores hire low skilled workers and pay less to its employees. When local stores close down, these entrepreneurs and their few employees now out of work and are forced to work with these mega stores for a fraction of what they earned. Drs. Boarnet and Crane found that WalMart will absorb 20% of the local grocery market workforce and cut grocery workers' income by up to $1.4 billion annually. **Source:** The Impact of Big Box Grocers on Southern California: Jobs, Wages, and Municipal Finances - Prepared for the Orange County Business Council by Dr. Marlon Boarnet of the University of California at Irvine and Dr. Randall Crane of the University of California at Los Angeles, 1999.

3. **Poverty factor**: studies found that poverty increased in towns where mega stores opened up. This being the chain reaction of taking local business away such as wholesalers, other retailers and local transport and trade companies who supported these stores. Mega retailers tend to have direct vendors and trading partners not from the local area, perhaps not even in the same state. Social capital reduction reduces resources given to social causes resulting from drained local capital. **Source:** Wal-Mart and County-Wide Poverty - by Stephan Goetz and Hema Swaminathan, Social Science Quarterly, June 2006.

How is this Related to India?

P. Ryan of Marubeni Research Institute summarizes the reasons why India has become an attractive market for Retail investment from within the country and externally. Some of the factors are:

- Consistent 15 year GDP growth at >6% resulting in a growing middle class
- Youthful Demographics: 80% of population is under 45 years of age and 54% are under 25.
- Greater discretionary income
- Only 3% of the retail market is 'organized'

All this means that India is a magnet attracting the likes of WalMart. Tesco, Carrefour to name a few. Within the country, the largest industrial companies with significant political influence such as Reliance, Tata, ITC, Raheja, Murugappa, and Perumal are all staking their claims to acquire land and build retail chain stores in various formats.

The big guys are coming

Despite the resistance from various movements, what are the chances these mega retailers won't succeed? Let's face it, they may be slowed down a bit, but they are here to stay.

Does this mean we have to have the WalMart story? Does this mean the community and the local economies have to pay the price? Not necessarily.

In the 80's and 90's small and mid-market retailers didn't have the tools to compete with the big guys. Now the technology and tools exist to even the playing field. What is lacking is the sophistication of these small and medium-retailers to take advantage of these technological advances. India is a country of knowledge workers. How do we bring them to bear on small and mid-sized retailers so they can effectively stand their ground and carve out their niche within this new economy?

How can the small retail business differentiate their services?

In their study on “The impact of mega-retail stores on small retail businesses: the case of Sudbury, Northern Ontario, Canada”; Cachon, Cotton and Virchez identify some areas where small retail business can excel to even the playing field. These include:

1) Solve Customers Problems:
   a) Competence of salespeople;
   b) Availability of salespeople; Service quality to clients
2) Treat Customers with Respect
   a) Treating customers with respect;
   b) Courteous salespeople
3) Connect with Customers’ Emotions through the retail experience
   a) Cleanliness of the store;
   b) Choice/variety of products
   c) Suppliers/supply chain
   d) Value/’value chain’ (any advantages given to clients as compared to competitors)
   e) Quality of products
4) Set the Fairest (not lowest) Price
   a) Fair pricing
   b) Avoiding hidden charges for customers
5) Save Customers’ Time

While small and mid-sized retailers need to excel in all of these areas, they need technological help to deliver value. Consumers are price sensitive. They need to be at par with these mega retailers.

Mega Retailers have technology that allows them to streamline their supply chain and logistics execution to ensure that the right product is in the right store at the right time at the right price. They have better inventory visibility and planning and forecasting tools that will help them plan for several thousands of stores and hundreds of thousands of products by season to ensure stock is available at the right store at the right time. They reduce obsolescence with sophisticated markdown and pricing strategies. They have direct vendor relationships to streamline the total inventory and overall production and distribution costs.

How can small and mid-sized companies compete against such technological sophistication? One would conclude that implementing a technological solution such as this is beyond the technological skills and financial abilities of these retailers, as such solutions would cost millions of dollars. Not necessarily.

TransWeave, Inc. has come up with a four-phase strategy to support these small and mid-sized companies.

Phase 1: TransWeave is offering three month bootcamp (intense 10 hour days, 6 days a week) of SAP IS Retail solution to grow a community of consultants who can help mid-sized retailers develop the technological solutions needed to sustain and grow their business in the wake of the new treat from Mega Retailers.

Phase 2: Small retailers need to get organized into cooperative, co-opetition based communities. TransWeave will work with Non-Profit organizations like RAI (Retail Association of India) to develop local chapters in various states to assist with this effort. Such a community will have collective bargaining power with trading partners and sourcing activities.

Phase 3: TransWeave will develop a platform called the "TransCommunity Supply Chain" that will provide the platform to support integrated supply chain planning, execution, and monitoring to ensure that the right product is available at the right store, at the right time for each of the member organizations (small retailers).

Phase 4: The required technology and ongoing support is delivered through an affordable subscription model to allow small retailers to obtain the same level of sophistication in its technology platform without having to maintain expensive resources and infrastructure in-house.

For the more immediate term (for the mid-sized customer), TransWeave, Inc. as a channel partner with SAP delivers the SAP IS Retail solution based on pre-configured SAP Best Practices distilled from the experience of these mega retailers. This offering can be implemented in 3-5 months for a reasonable price. This gives these retailers the same tools to manage their business as the big guys.

Can Mega and small retailers co-exist?

Mega Retailers:

The bigger issue is whether the mega retailers and their smaller cohorts can co-exist within the same eco-system. History is a good predictor. We have the history of the US trends through the last three decades to draw on. In the 80's small business reigned supreme. By the 1990's the mega retailer was overtaking and stampeding the small retailer and leaving a trail of destruction. In 2002, the trend began to change and more vocal resistance resulted in greater controls on where and when mega retailers can put up stores through community impact studies that became a requirement in many counties and states. Another factor was that these mega retailer chain stores, once isolated from the local community, started to build goodwill by participating in and becoming part of the local community. They are becoming better integrated with the local eco-system, reducing the impact of socio/economic destruction.

Small and Mid-sized Retailers:

As the novelty wore off, the need for choice and the need for the unique (read 'not generic') products started to grow. The more affluent would continue to shop for the basics at the mega retailers but would look for small boutiques stores and ethnic stores for the things one could not find at the mega retailers. Niche players with more sophisticated supply chains have replaced the "mom and pop" shop corner store. These niche players are better equipped to deal with the mega retailers and have learned to turn on a dime. The trend in the US has changed. Mega retailers no longer make extraordinary profits. They have competition from niche players who they cannot easily displace. The big, the small and the medium have learned to co-exist within the same eco-system.

Conclusion:

Why not learn from the decades of history in the US and elsewhere where these scenes have already been played out. Let's build the ability for all these retailers to co-exist by retooling the small and mid-sized retailers. In addition to technology, building on the strong roots they have within the community with greater community service projects initiated by the local stores will go a long way in maintaining customer and employee loyalty. We all want to be part of something bigger. India has always had a tradition of community and close knit circles. This is a great defense against external forces. Small and mid-sized retailers need to learn to leverage these strategies and build community support projects, customer loyalty programs, and individual attention to both employees and customers.